

Comptroller's Directive No. 1-05
Attachment HE-9
(Informational only)
Manual Leave Liability Calculation Guidelines

GASBS No. 16
requirements

GASB Statement No. 16, *Accounting for Compensated Absences*, requires the accrual of compensated absences liability. Leave Liability should include the following.

- Employer's share of Social Security and Medicare taxes on all accrued compensated absences
 - Termination payments for sick leave or disability credits for those employees who are not presently vested but who will probably attain the 5 years of service required to vest
 - Other leave earned such as on-call, overtime, compensatory and sabbatical leave (if unrestricted in nature) that has not been used by or paid to the employee
 - Employer contribution payments made to defined contribution or cost-sharing multiple employer defined benefit pension plans, if associated with service
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GASBS No. 34
definitions

GASB Statement No. 34 **did not** change how total leave is calculated under GASB Statement No. 16. GASB Statement No. 34 **did** change how the current portion (amount due within one year) is calculated. The liability for compensated absences (leave liability) that each institution accrues in the financial statements must be split into current and long-term portions as defined below.

Total Leave Liability: This is the liability for accrued annual leave, sick leave or disability credits, compensatory leave, on-call leave, overtime, applicable sabbatical leave (compensated allowances) and related taxes for all leave-eligible employees employed by the Institutions on June 24, 2005.

Current Leave Liability – Due within one year: Compensated absences liabilities become due upon the occurrence of relevant events such as resignations, retirements, and usage of leave balances. These occurrences and related dollar amounts cannot be known reliably in advance so the portion of compensated absences due within one year must be estimated.

Long-term Leave Liability – Due more than one year: This is the total leave liability less the amount due within one year.

Informational

This attachment is for informational purposes only and **should not** be submitted to DOA. However, the amount calculated should be included on the financial statement template submitted to DOA. This attachment is similar to the prior year Attachment HE-9.

Continued on next page

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Attachment HE-9
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**Impact of
Virginia
Sickness and
Disability
Program
(VSDP)**

For those employees who participate in the VSDP and converted sick leave balances to Virginia Retirement System service credit, the accrual for compensated absences will no longer include an amount for sick leave.

However, for those employees who participate in the VSDP and converted sick leave balances to disability credits, the accrual for compensated absences **will include an amount for disability credits**. The calculation of this amount should result in the same amount as would have been calculated for sick leave had these employees remained in the non-VSDP sick leave program.

**Sabbatical
leave
requirements**

Accrue sabbatical leave for an employee who receives **unrestricted** time off as compensation for past service. Accrue the liability during the period the employee earns the right to the leave if it is probable that the institution will compensate the employee for the benefits through paid time off or some other means.

Do **not** accrue sabbatical leave if the sabbatical constitutes a change in assigned duties and the salary paid during the leave is compensation for service during the period of the leave. This is only a change in the types of services the employee provides to or for the benefit of the institution and is considered **restricted** time off.

**Contributions
to pension
plans**

The accrual **should include** the required contribution to a defined contribution or cost-sharing multiple-employer defined benefit pension plan if the institution is liable for a contribution to the plan based on termination payments made to employees for vacation leave, sick leave, or other compensated absences. **Consider whether or not Optional Retirement Plan (ORP) contributions should be included in the institution's accrued leave liability.**

Since VRS is an agent multiple-employer defined benefit plan, no additional accrual is necessary for VRS contributions.

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Attachment HE-9
(Informational only)
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**CIPPS users –
Calculating
Leave Liability**

If CIPPS is used for leave, obtain CIPPS reports (U020, U027) through 6/24/05, and perform the following steps. Also, reports U020 and U027 have been modified to include program and fund/fund detail information.)

Step	Action
1	<p>Adjust the total leave liability to include missing amounts if the U027 Report does not reflect all transactions through 6/24/05.</p> <p>Adjust the total leave liability for payouts to terminated employees paid after 6/24/05 and prior to 7/1/05.</p> <p><u>Do not</u> adjust the leave liability for the following reasons.</p> <ul style="list-style-type: none">• Leave slips for absences during 6/25/05 through 6/30/05• Late leave slips for leave taken from 6/10/05 through 6/24/05.
2	<p>Compute additional leave liability for sabbatical leave not accounted for on CIPPS and any non-VRS pension contributions if applicable. (Since VRS is an agent multiple-employer defined benefit plan, no additional accrual is necessary for VRS contributions.)</p>
3	<p>Compute the current leave liability using the methodology on Instructions – Page 6 to 7 or other methodology approved by your auditors.</p> <p>Total leave liability calculated in Steps 1 and 2 less the calculated current portion (Amount due within one year) equals the long-term liability (Amount due more than one year).</p>
4	<p>Retain copies of all computations for review by auditors.</p>

Note: The CIPPS reports have been modified to include the Social Security (6.2% on a maximum salary base of \$90,000) and Medicare taxes (1.45%, no salary limit) on the accrued leave. The reports also include probability factors for the accrual of unvested sick leave or disability credits.

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Attachment HE-9
(Informational only)
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**Non-CIPPS
users**

For individuals not on CIPPS, institutions have to manually calculate accrued leave balances.

If CIPPS is not used for leave, perform the following steps.

Step	Action
1	Using the records of the Institution, determine the leave balance at June 30 for each employee. Leave should include annual, compensatory, overtime, on-call, 25% of sick leave or disability credits , and applicable sabbatical leave.
2	Determine each employee's hourly rate by dividing the annual salary at June 30 by standard full time hours of 2,080.
3	Multiply the hours for each leave category by the hourly rate. (See special instructions below for sick leave or disability credits.)
4	Calculate and include employer's tax payment for Social Security and Medicare on the leave liability. Based on individual employee salaries, Social Security is 6.2% on a maximum salary base of \$90,000 and Medicare is 1.45% on all salaries.
5	Compute additional leave liability for sabbatical leave and any pension contributions if applicable.
6	Aggregate the information at the agency level.
7	Compute the current leave liability using the methodology on Instructions - Page 6 to 7 or other methodology approved by your auditors. Total leave liability less the calculated current portion (Amount due within one year) equals the long-term liability (Amount due more than one year).
8	Retain copies of all computations for review by auditors.

Continued on next page

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Attachment HE-9
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**Non-CIPPS
users - Sick
leave or
disability
credits**

If the institution is a non-CIPPS user for leave purposes, the institution must consider the following limits in the calculations of sick leave or disability credit accruals.

- For employees with greater than 5 years of service, the sick leave or disability credits liability is limited to 25% of leave earned or \$5,000, whichever is less.
- For employees with less than 5 years of service, compute the sick leave or disability credits liability the same as for those with greater than 5 years of service, then **reduce** the amount based on the probability that the individual will eventually attain 5 years of service.

The Department of Human Resource Management has determined and provided the official probabilities for this purpose. The official probabilities are shown below in the formulas used for calculating sick leave or disability credits liability for employees with less than 5 years of service.

Total Individual Sick Leave or Disability Credits at 25% or \$5,000 per individual with less than 1 year service	X	39.04%	=	Sick Leave or Disability Credits Liability to be accrued on financial statements
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Total Individual Sick Leave or Disability Credits at 25% or \$5,000 per individual with 1 - 2 years service	X	47.00%	=	Sick Leave or Disability Credits Liability to be accrued on financial statements
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Total Individual Sick Leave or Disability Credits at 25% or \$5,000 per individual with 2 - 3 years service	X	66.18%	=	Sick Leave or Disability Credits Liability to be accrued on financial statements
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Total Individual Sick Leave or Disability Credits at 25% or \$5,000 per individual with 3 - 4 years service	X	76.78%	=	Sick Leave or Disability Credits Liability to be accrued on financial statements
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Total Individual Sick Leave or Disability Credits at 25% or \$5,000 per individual with 4 - 5 years service	X	89.08%	=	Sick Leave or Disability Credits Liability to be accrued on financial statements
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**Manually
calculate the
amount due
within one year**

The total leave liability (total amount before deducting current leave liability) has already been calculated. Institutions have to manually calculate the leave liability amount that is due within one year. The following is a suggested methodology. Institutions may use any methodology that is agreed to by their auditors.

Perform the following steps to calculate the amount due within one year.

Step	Action
1	Project the number of annual and sick leave hours that will be accrued in the next fiscal year (7/1/05 to 6/30/06) for each employee and in total. (Maximum carry forward limits should not have to be taken into account as the amount accrued in a 12 month period cannot exceed the maximum limits by years of service).
2	Determine each employee's hourly rate by dividing the annual salary at June 30, 2005 by standard full time hours of 2,080.
3	<p>Multiply the projected hours in Step 1 for each leave category by the hourly rate in Step 2.</p> <p>If CIPPS is used for leave, DOA has developed a report (U007) entitled "Current Leave Accrual Balance" that computes the liability amounts required in Steps 1-3 by individual, fund, function, organization code, and company code. If you would like to receive this report contact:</p> <p>Ronald D. Necessary, CPA Director, Financial Reporting Department of Accounts P.O. Box 1971 Richmond, VA 23218-1971 Phone: (804) 225-2380 Fax (804) 225-2430</p>

Continued on next page

Comptroller's Directive No. 1-05
Attachment HE-9
(Informational only)
Manual Leave Liability Calculation Guidelines

Step	Action
4	<p>Calculate a percentage for annual leave hours used and paid out compared to annual leave hours accrued. Calculate a second percentage for sick leave hours used and paid out compared to sick leave hours accrued. (For example, agency XYZ used and / or paid out 1,000 hours of annual leave. The annual leave hours earned for agency XYZ were 4,000. Therefore, the percentage factor for XYZ annual leave usage would be 25%). This calculation can be done on a fiscal year or calendar year basis.</p> <p>If CIPPS is used for leave, DOA has developed a report (U008) entitled "Year End Leave Usage/Accrual Percentage Report" that computes the percentages required in Step 4 on a calendar year basis. If you would like to receive this report contact Ronald D. Necessary (see contact information in Step 3 on the previous page).</p>
5	Multiply the percentages for annual and sick leave usage in Step 4 by the projected annual and sick leave liability calculated in Step 3.
6	<p>Aggregate the information at the institution level. This is the amount due within one year.</p> <p>Total leave liability less the calculated current portion (Amount due within one year) equals the long-term liability (Amount due more than one year).</p>
7	Retain copies of all computations for review by auditors.

**Footnote
Disclosure**

The following information is required footnote disclosure under GASBS No. 34. Enter this information on the Compensated Absences line on Attachment HE-10, TAB 5, LT Liabilities.

- Beginning Balance – should equal the prior year ending balance.
- Increases – use the projected amount calculated in Step 3 in FY 2004 or actual current year information.
- Decreases – calculated amount since other three amounts are known
- Ending Balance – should equal the total leave liability calculated.
- Amount due within one year – should equal the amount calculated in Step 6 above.
- Amount due more than one year – should equal the amount calculated in Step 6 above.

The projected leave liability calculated this year can be used as increases in fiscal year 2006. The projected leave liability calculated in fiscal year 2006 can be used as increases in fiscal year 2007 and so on.

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